

THE LEONARD LETTER

January 9, 2006

QUOTE OF THE WEEK

"Of all tyrannies, a tyranny exercised for the good of its victims may be the most oppressive... those who torment us for our own good will torment us without end, or they do so with the approval of their own conscience."-- C. S. Lewis (1898-1963) British novelist. Author of "Chronicles of Narnia"

UNDER THE DOME

2006 Race is On

From the blog January 5, 2006

The Governor's State of the State address is being micro-analyzed for its legislative program or indications of where Schwarzenegger now stands in the political spectrum. But what I heard was a re-election speech, and when compared to the weak comments of Angelides or Westly, it was a pretty good re-election speech. Governor Schwarzenegger went over the heads of the legislature and spoke to the people. As others have noted, he apologized to the people, laid out a big idea program of things people care about, and promised to work with everybody, something which the people also care about.

By election day in November, he will be able to claim credit for any successes this year, and for the failures that occur, he will be able to run against a do-nothing legislature given their penchant for running away from the big issues. It's a great way to win re-election. If that is not enough, then voters will look to the alternative and there really is none. The Democrats do not have a candidate with a bigger vision than Schwarzenegger who means it when he talks about the California dream. There is no evidence that a Democrat governor would get along any better with the Democrat legislature. Certainly Gray Davis had his troubles with the Assembly and the Senate.

The 2006 race is on and the incumbent holds most of the advantages.

The Price of Bonds

The Governor's proposal to issue bonds to pay for infrastructure improvements continues to concern me. I was pleased to hear him say that he believes we should cap the state's debt ratio at six percent. According to the Legislative Analyst's Office, the current debt service ratio is about 4.5% and is projected at 5.9% if the infrastructure bonds are included. If we accept that we are willing to spend 6% of our annual budget on infrastructure, then the next question is: should we spend it servicing debt or actually buying stuff? It is the same set of options faced by a homeowner needing kitchen renovation. The homeowner must decide: should I set aside 6% of

my income for a certain amount of time and do the improvements when I have saved enough, or should I borrow the money and spend 6% of my income paying off the loan? I do not believe the legislature has explored these two options and that we are rushing headlong into borrowing for projects that, while needed, could be better handled by investing savings rather than paying interest.

***** Minimum Wage Hikes Hurt the Poor *****

In the wake of Governor Schwarzenegger's announcement that he will seek a minimum wage rate hike policymakers should consider the Golden Gate Restaurant Association's findings: 98% of restaurants raised their prices, 89% significantly, 54% reduced the number of employees, and 91% reported lower profits after San Francisco city raised the minimum wage. That seems to accurately reflect the findings by a professor in another city. A study of the minimum wage hike in Santa Fe, New Mexico, found that it led to an increase in unemployment of 3.3%. The shocking statistic though was this: the likelihood of unemployment increased 8.3% for less-educated employees. Dr. Yelowitz concluded that the minimum wage hike "consequences were particularly harmful to less skilled adult workers - precisely the group for whom the ordinance is intended to help."

My friend Stephen Frank has also drawn together a lot of information showing the ill effects of raising the minimum wage. Frank writes, "The lessons learned from the 40's, 50's, '60's, through the '90's was still true in 2005. If you want to harm those most in need, raise the minimum wage." To sum up a few of the documented effects of raising the minimum wage:

1. Unemployment rises among the poor, even when the economy is good for others.
2. Those on welfare are 44% less able to get off welfare
3. Businesses employ more technology to replace workers.

Frank makes a great case that the minimum wage is a regressive tax and policy against the poor, minorities, and generally those trying to get a firm footing on the economic ladder. He cites numerous cases when even those on the left have admitted the destructive nature of having, let alone raising, the minimum wage. He also found that only about 6% of those making minimum wage are the sole supporter of their families. Read the whole thing at Frank's blogsite:

<http://capoliticalnews.com/discuss.php?id=258>

ISSUE FOCUS

*****Cultural and Financial Disconnect*****

As you will see below in my recommended reading this week, I recently reviewed the Federalist Papers, essays written to support the proposed Constitution of the United States way back when. In Federalist #2, John Jay explained that the new country's people were united because they were from "the same ancestors, speaking the same language, professing the same religion, attached to the same principles of government, very similar in their manners and customs, and who, by their joint counsels, arms, and efforts, fighting side by side throughout a long and bloody way, have

nobly established their general liberty and independence.” I do not believe that statement accurately describes the American people any longer. Among the challenges that creates is this: how do we have a reasonable policy debate when we no longer share “manners and customs”? For example, consider my analogy to the home improvement loan versus saving for a kitchen model in the story about the price of bonds above.

I used to be able to say that personal, household budget decisions are driven by common sense. That is, if less money is coming in, your family chooses to cut certain expenses, or when money does come in, a certain percentage is set aside for a rainy day before any luxuries are purchased. While I am staggered by the legislature’s spending decisions and the rush to borrow instead of invest, I realize these decisions still can be understood in terms of household’s budget, but not on the common sense basis I just described. The average U.S. household has nearly \$10,000 in credit card debt and another nearly \$10,000 in other consumer debt (mortgages excluded). Seventy-six percent of Americans with credit cards carry balances, and 37% of credit card users make only the minimum monthly payments. (Source: Lending Tree consumer survey, 2005) Of those who are concerned about their own financial and debt situation in 2005, nearly 20% were still planning to buy automobiles and 21% were planning home improvement projects of more than \$3,000. The average American household is not making sound financial decisions, is not saving for a rainy day, and apparently does not fault their elected officials from approaching taxpayer money in the same way they approach their own: if you want something, buy it on credit now and worry about the expensive payback later.

*****Tax Gap*****

The 2005 state budget's supplemental report requires the Board of Equalization to report the Sales and Use Tax Gap. This is the amount of uncollected revenue for sales and use transactions. This is mostly underreporting by registered businesses, or nonfilers who should be registered, or use tax liabilities that could be owed by anybody. The Board's research section estimates that the total amount of state sales and use tax that was owed during fiscal year 2004-05 amounted to \$28.2 billion. Of this amount, \$26.9 billion, or 95.2%, was paid. Therefore, BoE is reporting the sales and use tax gap is \$1.4 billion, or 4.8% of the total amount due for that time period. This is not an insignificant number. However, I would be willing to bet that the major credit card companies would be delighted with a collection number above 95%. While we need to continue to make it easier to comply with our tax laws and do a better job of catching the tax cheaters, the tax gap number is not so high that new draconian measures that trample taxpayer rights need to be passed into law.

MISCELLANY

*****A Good Read*****

If you did not have the opportunity to take a class in the American founding from Professor Charles R. Kesler, then you will benefit from his assemblage of essays about it in “Saving the Revolution: The Federalist Papers and The American Founding.” I turned to the volume again to read about the Federalist’s view of foreign policy. Essayist Patrick J. Garrity discusses the

founding view of national interest, including commercialism, and finds that “The Federalist also stresses that the success of American foreign policy is essential to the preservation of American liberty.” As we learn about the struggles of the Iraqis to bring their government anew, this book is worth reviewing to remind us about the complexities of nation building, the challenges of constitution writing, the difficulties of winning over public opinion to a new form of governance, and the moral implications of all commentary of such topics.

BOE AND LEGISLATIVE DATES

January 16, 2006 --- Martin Luther King Jr. birthday holiday.

January 31-February 1, 2006 --- BOE meets in Sacramento.

February 13, 2006 --- Abraham Lincoln’s birthday holiday.

February 13, 2006 --- First day Declaration of Candidacy and Nominations papers can be turned in for candidates running in the June primary election.

February 20, 2006 --- Presidents’ Day/George Washington’s birthday holiday.

February 23, 2006 --- Last day to turn in petitions in-lieu of the filing fee for the June 2006 primary election.

March 7-9, 2006 --- BOE meets in Culver City.

NOTABLE DATES/ HISTORY

January 9, 1847 --- The first San Francisco newspaper, the California Star, was published.

January 9, 1848 --- The first commercial bank in San Francisco was established.

January 9, 1857 --- A 7.9 earthquake shook Fort Tejon, CA.

January 9, 1908 --- Muir Woods National Monument, California was established.

January 10, 1776 --- Thomas Paine published “Common Sense.”

January 11, 1757 --- Alexander Hamilton was born in the West Indies. He became the first U.S. Secretary of Treasury and his face appears on the \$10 bill.

January 11, 1785 --- The Continental Congress convenes in New York City, NY.

January 12, 1777 --- Mission Santa Clara de Asis founded in California.

January 12, 1995 --- The murder trial against OJ Simpson began in Los Angeles

January 13, 1930 --- “Mickey Mouse” comic strip first appeared.

January 13, 1847 --- The generous Treaty of Cahuenga was signed, ending the Mexican-American War in California. The treaty was signed by Lieutenant-Colonel John C. Fremont for the United States and General Andres Pico for Mexico on the kitchen table of Tomas Feliz's six-room adobe house near Cahuenga Pass at 3919 Lankershim Boulevard (across the street from the entrance to Universal Studio in Universal City). The Treaty of Guadalupe Hidalgo in 1848 formally ceded California to the United States and fixed the disputed border in Texas, ending hostilities with Mexico. (Interesting note for fans of the Bancroft Library at Cal: The original English version of the Treaty of Cahuenga vanished without a trace; however, the original Spanish version was kept with General Pico at his San Fernando Mission home. This also disappeared, but was recovered seventy-four years later in the Bancroft Library in Berkeley, California, among the Pico family papers.)

January 14, 1999 --- House prosecutors requested President Bill Clinton’s removal from office during post-impeachment proceedings in the Senate.

January 15, 1870 --- Cartoonist Thomas Nast originated the donkey as a symbol to identify the Democrat party in a political cartoon appearing in *Harper's Weekly*.

January 16, 1887 --- San Francisco’s Cliff House damaged when the powder cargo in the schooner “Parallel” exploded.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate’s office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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